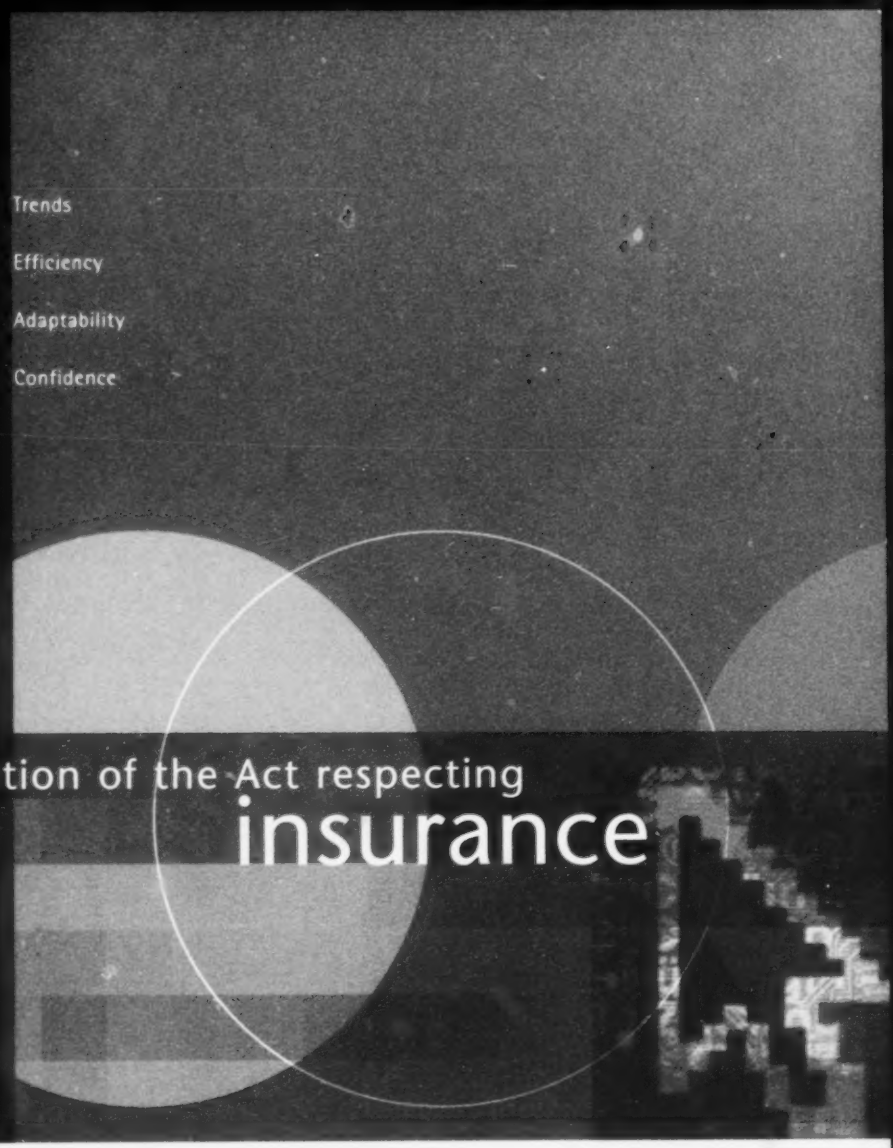

Report on the Application of the Act respecting insurance

Québec

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Report on the Application of the Act respecting insurance

Québec
Ministère des Finances

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Ministère des Finances
Direction des communications
12, rue Saint-Louis
Québec (Québec) G1R 5L3

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Québec City, June 2001

Mr. Jean-Pierre Charbonneau
President of the National Assembly
Hôtel du Parlement
Québec (Québec)
G1A 1A4

Sir,

In accordance with section 425.1 of the Act respecting insurance (R.S.Q., chapter A-32), I have the honour of tabling the second Report on the Application of the Act respecting Insurance.

Yours truly,

Pauline Marois
Deputy Prime Minister and
Minister of State for the Economy and Finance

MESSAGE FROM THE MINISTER

The Report on the Application of the Act respecting insurance concerns a vital sector of Québec's economy. The insurance sector is one of the pillars of our financial industry because of the nature of its activities and its importance, both quantitatively and qualitatively, in the community. Insurers and intermediaries play a basic role in our economy. They employ thousands of people and manage substantial financial interests.

Major changes

The insurance sector has undergone major changes in recent years. These changes have affected the way things are done, the structure of companies, as well as consumers' behaviour. Many factors, especially technological and economic, account for these changes, changes that affect the financial services industry in all the industrialized economies. In the face of these developments, Québec has responded by quickly, and often innovatively, adapting the sector's legal and regulatory framework.

These changes are far from complete: the decompartmentalization of the financial sector, market globalization, and the introduction of new technology are major challenges that Québec's insurers must be ready for under the best possible conditions. At the same time, consumers must continue to be fully protected, and the legislative and regulatory tools must themselves be adapted to the new conditions of the insurance market.

The revision of the Act respecting insurance

Accordingly, I am announcing that the legislation concerning insurance will be amended, to streamline existing provisions while monitoring the solvency of insurers. The Report on the Application of the Act respecting insurance details the various amendments that appear appropriate to make to the existing legislative and regulatory framework.

These amendments were not arrived at in isolation. The ministère des Finances consulted with insurers and the organizations representing them. Consumers' concerns were taken into consideration throughout the exercise. The Inspector General of Financial Institutions, who is responsible for administering the Act respecting insurance, also participated in this undertaking.

Maintaining a fair balance

The proposals discussed in this report flow directly from these suggestions. They are designed to foster the development of insurers that carry on activities in Québec, while protecting the public and maintaining the vital confidence that must exist between them and such strategic financial institutions as insurance companies.

The proposed amendments will make it possible to maintain and strengthen a fair balance between the leeway insurers need and the powers that must reside in the oversight authority to guarantee the solvency of insurers and thus protection of consumers. Accordingly, the proposals imply that directors shoulder greater responsibility and that the oversight authority receive more power and enhanced latitude for this purpose. In addition, the revision of the Act respecting insurance provides an opportunity to take a further step in the process of regulatory streamlining the government has undertaken throughout the administration.

I am convinced that the proposed amendments will act as a catalyst, further accelerating the development, in Québec, of financial institutions operating in the insurance field. A promising sign in this regard can be seen in the fact that, in recent years, a number of global insurance companies have selected Montréal as the base for some of their activities. This shows the confidence of the insurance industry in the nature of the regulatory and legal framework developed by Québec, confirming the balance Québec has struck between the development of insurers and the protection of insureds, in the best interests of all Quebecers.

Pauline Marois
Deputy Prime Minister and
Minister of State for the Economy and Finance

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INTRODUCTION

THE LEGAL FRAMEWORK OF INSURERS

An insurer that wishes to carry on activities in Québec is required to hold an insurer's licence issued by the Inspector General of Financial Institutions under the *Act respecting insurance* (R.S.Q., chapter A-32). This requirement applies to insurers with a Québec charter and to those with a charter issued by another province, by Canada or by another country.

The *Act respecting insurance* and its regulations (R.R.Q., chapter A-32) define the major legislative and regulatory provisions with which insurers are required to comply if they carry on activities in Québec. Insurers must also satisfy the general provisions regarding insurance contracts included in the *Civil Code of Québec*. Lastly, under section 35 of the *Act respecting insurance*, part I of the *Companies Act* (R.S.Q., chapter C-38) applies to insurance companies in the absence of special provisions.

PURPOSE OF THIS REPORT

The Report on the Application of the *Act respecting insurance* is the second report tabled by a minister responsible in the course of applying the legislation defining how insurers operate in Québec.[1] The purpose of this report is to identify changes that may usefully be made to the legal and regulatory framework of insurers, to adapt it to developments in the sector.

The report was prepared by the ministère des Finances, based on consultations with various persons and agents concerned. The insurance industry and the associations representing insurers identified the changes they wanted, as did the Inspector General of Financial Institutions, who is responsible for administering the *Act respecting insurance*.

The Report on the Application of the *Act respecting insurance* is divided into five chapters in order to make the recommendations regarding changes to the legal and regulatory framework of insurers easily accessible and understandable.

- Chapter 1 gives a certain amount of quantitative information on the insurance market in Québec, to illustrate its importance in the economy as well as on-going developments.

- In chapter 2, the report deals with the changes being considered for the legal framework of insurers, in order to allow for the transformations affecting this sector. More specifically, chapter 2 contains the various proposed amendments to the *Act respecting insurance*.

[1] The first Report on the Application of the *Act respecting insurance* was tabled in June 1990 in the National Assembly. See Quinquennial Report on the Application of the Act Respecting Insurance, Gouvernement du Québec, June 1990.

- Chapter 3 identifies a number of possible regulatory streamlining measures for the legal and regulatory framework of insurers. These proposals deal with a number of requests made by insurers, and stem from the government's three-year regulatory streamlining plan.

- Chapter 4 discusses other proposed legislative amendments, this time concerning the *Civil Code of Québec*. As was mentioned earlier, many provisions of the *Civil Code* apply directly to insurers, and some changes should be made to them.

- Lastly, in chapter 5, the report deals specifically with the case of uninsured benefit plans. These plans are set up and generally administered by employers for their employees. This report makes specific proposals concerning them.

The proposals made in this report are clearly identified throughout the document. They are also repeated in full at the end of the report.

CHAPTER 1

A CHANGING INSURANCE MARKET

The insurance market is currently experiencing major changes, resulting in particular from the decompartmentalization of the financial sector, trade globalization and the use of new information and communications technologies in the insurance sector. The Report on the Application of the *Act respecting insurance* provides an opportunity to illustrate these developments as far as the Québec market is concerned. In addition, the report identifies certain transformations that underlie, at least partially, the proposed amendments to the legislative and regulatory framework.

THE INSURANCE SECTOR

A number of years ago, the financial system had four separate sectors, namely the banking sector, trust companies, insurance companies and investment dealers. Companies were forbidden by legal and regulatory barriers from carrying on activities simultaneously in more than one of these sectors.

Decompartmentalization of the financial sector

The decompartmentalization of the financial sector ended this situation. In every developed country, business links between these sectors were developed. Currently, many financial companies are part of conglomerates, within which the entire range of financial services is available.

In Canada, these conglomerates were most often formed on the initiative of banks and insurance companies. Most trust companies and investment dealers have been acquired by banks, which have turned them into subsidiaries. Overall, the formation of conglomerates and the conclusion of strategic alliances enable financial institutions to become more competitive and extend their field of activity. It should be specified that in Québec, as with the other provinces of Canada, these conglomerates include both provincially chartered and federally chartered companies.

Insurance of persons and damage insurance

There are two types of activities in the insurance sector.

- Insurance of persons covers life, pensions, accidents and illness.
- Damage insurance protects the insured against the consequences of an event that may affect his property. Damage insurance is also known as general insurance.

Insurance of persons and damage insurance are activities generally carried out by different insurers. Legally, and in either case, the activity may be carried out by mutual companies or by capital stock companies that may or may not be listed on a stock exchange. In addition, mutual benefit associations are active on the insurance of persons market, while mutual insurance associations are active on the damage insurance market.

SOME STATISTICAL DATA

The statistical data shown below illustrate the size of Québec's insurance sector and the changes that have affected it over the last ten years.

The first thing to be mentioned is that the insurance sector generates a large number of jobs. In 1999, 43 500 people worked full-time in the insurance sector in Québec, including 22 500 in insurance of persons.[2]

The number of insurers doing business in Québec

One way to gauge the size of the insurance sector and illustrate how it has developed is to count the number of licences issued under the *Act respecting insurance*.

As at December 31, 1999, 339 insurers held a licence to carry on an insurance activity in Québec. Of these, 144 licences concerned insurance of persons, 190 applied to damage insurance, and the remaining five licences authorized both insurance of persons and damage insurance.

[2] Results of surveys carried out by the Canadian Life and Health Insurance Association Inc. (CLHIA) and the Insurance Bureau of Canada (IBC).

TABLE 1

NUMBER OF INSURERS HOLDING A LICENCE IN QUÉBEC – 1989-1999 BY CHARTER

	Insurance of persons		Damage insurance		Insurance of persons and damage insurance		Total		Difference
	1989	1999	1989	1999	1989	1999	1989	1999	89-99
Insurance companies									
Québec charter	17	16	22	23	2	1	41	40	- 1
Charter of another province	3	7	9	6			12	13	1
Canadian charter	50	48	80	61	1		131	109	- 22
Foreign charter	63	48	98	59	8	4	169	111	- 58
Sub-total	**133**	**119**	**209**	**149**	**11**	**5**	**353**	**273**	**- 80**
Mutual benefit associations									
Québec charter	11	7					11	7	- 4
Charter of another province									
Canadian charter	10	9					10	9	- 1
Foreign charter	11	7					11	7	- 4
Sub-total	**32**	**23**					**32**	**23**	**- 9**
Funeral insurance companies	6	2					6	2	- 4
Mutual insurance associations			42	37			42	37	- 5
Professional corporations			2	4			2	4	2
Sub-total	**6**	**2**	**44**	**41**			**50**	**43**	**- 7**
TOTAL	**171**	**144**	**253**	**190**	**11**	**5**	**435**	**339**	**- 96**

Source: 1989 and 1999 reports on insurance, Inspector General of Financial Institutions

As Table 1 shows, there has been a significant drop over the last ten years in the number of insurers holding a licence in Québec, affecting mainly companies with a foreign charter.

- The total number of insurers holding a licence in Québec has fallen by almost a quarter in ten years, from 435 to 339, affecting both insurance of persons and damage insurance.

- The total number of insurers with a Québec charter has remained relatively stable: in ten years, the number of licences in this category of insurers[3] has declined from 102 to 90.

- However, there has been a substantial drop in the number of licences held by insurance companies and mutual benefit associations with a Canadian charter or a foreign charter. In ten years, the number of licences held by these companies and associations has dropped from 141 to 118 for Canadian-chartered companies and associations, and from 180 to 118 for foreign-chartered insurers.

It appears that the concentrations and consolidations that have affected the insurance sector, and that account for the reduction in the number of licences, have had a greater impact on federally chartered and foreign-chartered companies and associations than on insurers with a Québec charter.

Insurers' assets

The number of licences issued measures only the number of insurers carrying on activities on the Québec market. By studying the change in assets, it is possible to assess the financial weight of these insurers and how it has changed over the last number of years.

As at December 31, 1999, the 339 insurers with a licence authorizing them to carry on activities in Québec held slightly more than $351 billion in assets in Canada.

Assets held in Canada solely by insurers of persons amounted to $298 billion, or 85% of all assets in question. As at the same date, damage insurers with a licence to carry on activities in Québec held total assets in Canada of $53 billion.

The data concerning assets held in Québec by federally chartered and foreign-chartered insurance companies carrying on activities in Québec are not available. However, the amount of assets held in Canada by Québec-chartered companies is known. Excluding segregated funds, insurers of persons held assets of $13.1 billion as at December 31, 1999. When seen against Canada as a whole, the assets held by Québec-chartered companies account for a small share of the total assets controlled in Canada by insurers holding a Québec licence, at least as far as insurance of persons is concerned.

[3] Apart from insurance companies and mutual benefit associations with a Québec charter, this category also includes funeral insurance companies, mutual insurance associations and professional corporations.

Segregated funds

A large and growing fraction of assets held by insurers of persons consists of what are called "segregated funds".[4] Segregated funds, established under the *Act respecting insurance*, allow insurers to make commitments that vary with the market value of a set group of assets. The assets of segregated funds are separated from the insurer's other assets. They consist of various financial instruments whose asset mix can vary, depending on the yield objectives and degree of risk of each specific fund.

As at December 31, 1999, segregated funds held in Canada by insurers of persons holding a Québec licence amounted to $78 billion. This category of assets has grown extremely rapidly over the last ten years for Québec-chartered insurers of persons. Between 1989 and 1999, segregated funds have risen from 8% to 46% of total assets held by Québec-chartered insurers. Segregated funds of Québec-chartered insurers of persons have grown tenfold in ten years, from $0.6 billion to $6.4 billion.

Premiums and contributions paid in Québec

Data on the assets of insurance companies do not provide a complete measure of the activities of these companies on the Québec market. To assess this activity, the amount of premiums and contributions paid to these companies by Québec consumers must be studied. Tables 2 and 3 below and the accompanying charts provide an analysis of the change in premiums and contributions paid between 1989 and 1999, by charter and activity.

Change in contributions and premiums by charter

In 1999, premiums and contributions paid in Québec amounted to $10.8 billion, of which $6.3 billion (59%) was for insurance of persons and $4.5 billion (41%) for damage insurance.

Table 2 illustrates the following phenomena:

- Overall, the amount of premiums and contributions paid on the Québec market rose by nearly 24% in ten years, from $8.7 billion to $10.8 billion.

- Premiums and contributions paid in the damage insurance sector have risen substantially (increase of almost one third in ten years), while growth in premiums and contributions for insurance of persons has been more moderate (increase of 18% in ten years).

- On both the insurance of persons and damage insurance markets, Québec-chartered insurers held just over two fifths of the market in 1999 (exactly 41% in both cases). This is up strongly compared to the situation

[4] Segregated funds do not exist in the damage insurance sector.

in 1989, since the same insurers then accounted for just over 29% of the market, for both insurance of persons and damage insurance.

TABLE 2

DIRECT PREMIUMS AND CONTRIBUTIONS PAID IN QUÉBEC, BY INSURER CHARTER – 1989-1999
(thousands of dollars)

	1989	%	1999	%
Insurers of persons				
Québec charter	1 577 407	29.4	2 606 127	41.2
Federal charter or other provincial charter	2 934 387	54.7	3 223 293	50.9
Foreign charter	851 974	15.9	500 946	7.9
Sub-total	**5 363 768**	**100.0**	**6 330 366**	**100.0**
Damage insurers				
Québec charter	980 018	29.1	1 848 575	41.5
Federal charter or other provincial charter	1 836 450	54.6	2 086 048	46.8
Foreign charter	548 131	16.3	522 276	11.7
Sub-total	**3 364 599**	**100.0**	**4 456 899**	**100.0**
TOTAL	**8 728 367**		**10 787 265**	

Source: 1989 and 1999 reports on insurance, Inspector General of Financial Institutions

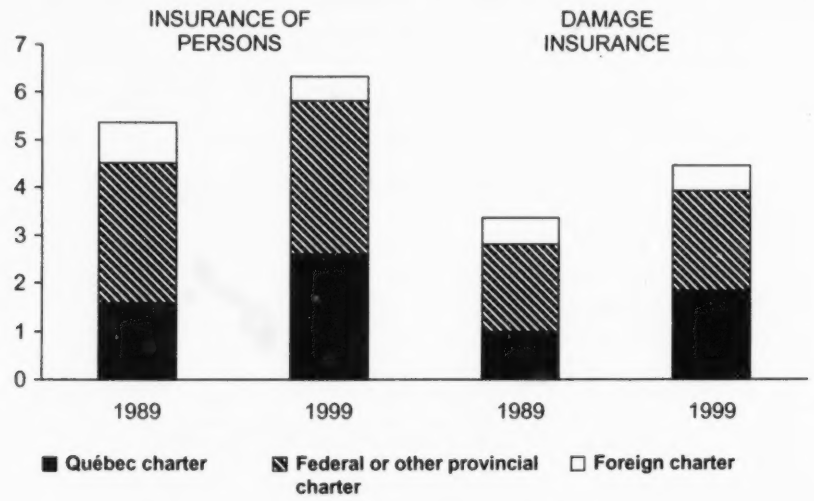
Chart 1 below illustrates the following phenomena:

- Insurers with a charter from another province or a federal charter continue to hold the largest share of the market, though that share is falling: between 1989 and 1999, the market share of insurers with a charter from another province or a federal charter fell from 55% to 51% for insurance of persons, and from 55% to 47% for damage insurance.

- The rest of the market is held by insurers with a foreign charter. Here again, the market share held by this category of insurers has fallen substantially, for insurance of persons (down from 16% to 8% between 1989 and 1999) and damage insurance (from 16% to 12% in ten years).

CHART 1

DIRECT PREMIUMS AND CONTRIBUTIONS PAID IN QUÉBEC, BY INSURER CHARTER – 1989-1999
(billions of dollars)



Source: 1989 and 1999 reports on insurance, Inspector General of Financial Institutions

This shows that on a market featuring strong growth in damage insurance premiums, insurers with a Québec charter have managed to increase their presence significantly. This success has been earned at the expense of insurers with a federal charter or a charter from another province, and especially from foreign-chartered insurers. Accordingly, in 1999, five Québec-chartered insurers were among the fifteen largest insurers in terms of market share, cumulative premiums amounting to almost one third of all premiums or contributions paid in Québec.

Change in contributions and premiums by activity

Table 3 shows direct premiums and contributions paid in Québec and grouped by activity.

- For insurance of persons, there has been a very large increase in insurance contracts covering life, accident and health, while purchases of annuities are down substantially.

TABLE 3

DIRECT PREMIUMS AND CONTRIBUTIONS PAID IN QUÉBEC, BY ACTIVITY – 1989-1999
(thousands of dollars)

	1989	%	1999	%
Insurance of persons				
Life				
Individual	1 280 792	24.3	2 144 923	33.9
Group	474 484	9.0	720 144	11.4
Sub-total	**1 755 276**	**33.3**	**2 865 067**	**45.3**
Annuity				
Individual	1 585 939	30.1	547 472	8.6
Group	814 309	15.4	490 867	7.8
Sub-total	**2 400 248**	**45.5**	**1 038 339**	**16.4**
Accident and health	1 116 446	21.2	2 426 960	38.3
Sub-total	**1 116 446**	**21.2**	**2 426 960**	**38.3**
TOTAL	**5 271 970**	**100.0**	**6 330 366**	**100.0**
Damage insurance				
Automobile	1 545 641	47.4	2 128 541	47.8
Personal property	651 745	19.9	1 013 238	22.7
Commercial property	554 618	17.0	698 279	15.7
Aircraft	32 720	1.0	28 929	0.6
Surety	37 825	1.2	44 660	1.0
Machinery and boilers	31 537	1.0	45 490	1.0
Maritime	23 474	0.7	30 346	0.7
Liability	350 127	10.7	410 287	9.2
Other categories	35 509	1.1	57 129	1.3
TOTAL	**3 263 196**	**100.0**	**4 456 899**	**100.0**

Source: 1989 and 1999 reports on insurance, Inspector General of Financial Institutions

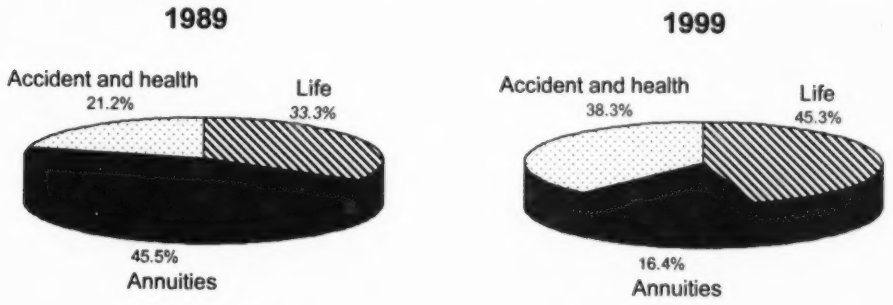
- Between 1989 and 1999, life insurance contributions and premiums rose just over 63%, while accident and health insurance contributions and premiums more than doubled. Overall, in 1999, contributions and premiums covering life, accident and health accounted for close to 85% of insurance of persons contributions and premiums in Québec, compared to just over half ten years ago. This situation reflects the changes that have taken place in consumers' preferences, in favour of products combining insurance and savings.

- Inversely, premiums and contributions for annuities fell from $2.4 to $1.0 billion in ten years. In 1999, annuities accounted for only 16% of

premiums and contributions received in the insurance of persons sector, compared to 45% in 1989. The substantial drop in the share of annuities in premiums and contributions paid is attributable to changes in consumer preferences: consumers are now turning to insurance products that include a savings component, such as segregated funds.

CHART 2

BREAKDOWN OF DIRECT PREMIUMS AND CONTRIBUTIONS PAID IN QUÉBEC, BY ACTIVITY – INSURANCE OF PERSONS – 1989-1999



Source: 1989 and 1999 reports on insurance, Inspector General of Financial Institutions

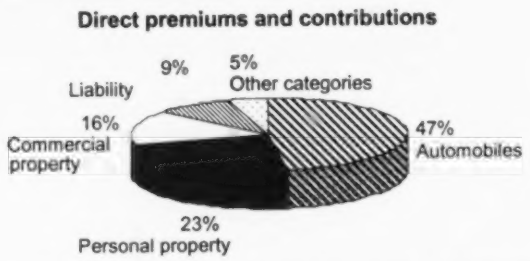
It is also worth noting that in 1999, almost 98% of premiums and contributions for insurance of persons were paid to capital stock companies and mutual insurance companies. Mutual benefit associations, with less than 3% of premiums and contributions paid, now play only a marginal role in the insurance of persons sector.

- Turning to damage insurance, the breakdown of premiums and contributions over the last ten years has been relatively stable. In a market experiencing a strong increase in premiums paid, a little over 95% of all premiums and contributions corresponded, in 1999, to automobile insurance premiums, premiums for personal and commercial property insurance as well as premiums and contributions covering the associated liability. This is approximately the same proportion as in 1989.

  It should be noted that in the case of personal property, the increase in premiums and contributions is attributable to, among other things, the increase in payments, reflecting the impact of the losses caused by a number of major disasters that have hit Québec in recent years (the Saguenay floods of July 1996 and the January 1998 ice storm), rather than growth in the market.

CHART 3

BREAKDOWN OF DIRECT PREMIUMS AND CONTRIBUTIONS PAID IN QUÉBEC, BY ACTIVITY – DAMAGE INSURANCE – 1999



Source: 1989 and 1999 reports on insurance, Inspector General of Financial Institutions

- In the damage insurance sector as with insurance of persons, premiums and contributions were essentially paid to insurers with the status of companies. In 1999, premiums and contributions paid to companies accounted for close to 95% of all premiums and contributions paid, with the remaining 5% paid to mutual insurance associations.

MAJOR CHANGES

As previously mentioned, the decompartmentalization of the financial sector, trade globalization and the introduction of new information and communications technology have had a profound impact on the conditions in which the insurance sector operates.

Decompartmentalization of the financial sector: greater competition

The decompartmentalization of the financial sector has unleashed fierce competition on the insurance market, in a variety of forms.

- Financial stakeholders – insurers and others – design and market new products that compete with each other on the insurance market and on other financial markets. Accordingly, the most popular insurance products, such as segregated funds, put insurers in direct competition with firms specializing in mutual funds. For registered retirement savings plans, insurers compete with other financial institutions, banks and cooperatives in particular.

- For some of these products, the big Canadian banks have formed strategic alliances that allow them to lower their production costs and become more competitive. In many cases, common subsidiaries are formed to handle daily back-office activities.

- Given the range of competing products, consumers are more sensitive to the returns offered and, more generally, the choices available to them. Consumer preferences for insurance products have changed considerably in recent years. Traditional policies, in particular whole-life insurance policies, which were very popular twenty years ago, are now much less so. Consumers are turning to universal insurance products that include insurance protection and a return on the funds invested.

Naturally, insurers have adapted to the new competitive environment stemming from the decompartmentalization of the financial sector. They have modified their investment strategy to take advantage of new investment vehicles. Indeed, insurers must now innovate on an on-going basis if they wish to remain competitive and continue to grow.

Market globalization

In the financial sector, market globalization has prompted financial institutions to internationalize their activities to achieve two objectives.

- To maintain and increase their market share, financial institutions are working to have a presence on a number of national markets.

- In addition, financial institutions believe that the growth of their customer base will help them achieve economies of scale and thus reduce the cost of their products, making them more competitive.

Globalization leads to competition between certain countries seeking to attract foreign investors by adjusting their regulatory structures to allow financial institutions to operate more freely, while still providing adequate protection for consumers of financial services and products.

Globalization is also accelerating the mergers and acquisitions phenomenon, which now concerns major institutions such as London Life and Royal Insurance in Canada, Wells Fargo Bank, Travelers and Citicorp Bank in the United States, and Swiss Bank Corporation and Union Bank of Switzerland in Switzerland.

Introduction of new technologies

In addition to the decompartmentalization of the financial sector and globalization, the introduction of new information and communications technologies is another major factor of change for the insurance sector. The development of personal computers and the deployment of the Internet have had a profound effect on how financial institutions and consumers do things.

In a relatively short time, ABM machines have proliferated and the nature of services offered to customers has changed. Claims can be processed much more quickly now, thanks to the advent of personal computers. A loan can be

obtained from a financial institution in a few hours. With the development of e-commerce, individuals can purchase securities online.

More specifically, in the insurance sector, a customer can now obtain, in a few minutes, rate quotes from a number of companies for the same product. A growing number of consumers can personally carry out price comparisons for various products offered by suppliers active on the market.

The introduction of new technology in the insurance sector has led to substantial productivity gains. At the same time, it has made the market more competitive, by giving customers information and decision-making resources not available to them ten years ago.

CHAPTER 2

THE *ACT RESPECTING INSURANCE*: PROPOSED AMENDMENTS

This report identifies the proposed amendments to the current *Act respecting insurance*. These amendments affect five sets of provisions of the *Act* concerning:

- the constitution of insurers;
- the objects and activities of an insurer;
- investment powers;
- regulation and oversight powers;
- portfolio management corporations.

Before dealing with these proposed amendments, it is worth reviewing the main changes to the *Act respecting insurance* over the last twenty years.

LEGISLATION THAT HAS CHANGED SUBSTANTIALLY SINCE THE EARLY EIGHTIES

The most significant amendments to the legislation were made in 1984. Since then, major adjustments have been made to the legislative text a number of times,[5] the most important in 1990 and in 1996. The reasons that led to the *Act respecting insurance* and the adjustments made since then should be kept in mind, to appreciate the logic of the amendments proposed in this report.

The 1984 reform

In 1984, the National Assembly of Québec passed bill 75, which overhauled the legislative framework of the insurance sector. The bill introduced a number of major innovations that made Québec's legislation a forerunner, in a number of ways, compared to the legislation in effect regarding insurance in major western countries.

Essentially, the following innovations were made:

- Insurers could henceforth carry on new activities unrelated to insurance.
- The concept of "investment a prudent and reasonable person would make" replaced the qualitative restrictions that had applied until then for certain forms of investments.

[5] S.Q., 1984, chap. 22; 1985, chap. 17; 1987, chap. 54; 1990, chap. 86; 1993, chap. 13 and 1996, chap. 63.

- The investments and loans of insurers other than mutual benefit associations were subject to set quantitative criteria. However, these insurers could hold shares of any type of subsidiary, and more particularly of other financial institutions and downstream holdings. Mutual benefit associations were required to invest their funds in accordance with the rules of investment for others defined in the *Civil Code*.

- Regarding the financing of insurers, borrowing powers were expanded, powers to extend guarantees were restricted, while mutual insurance companies were authorized to issue preferred participation securities.

- It was stipulated that the authorization of formation, amalgamation, continuation, transfer and issues of shares covering 10% of more of voting shares came under the minister's authority. When required, the Inspector General of Financial Institutions issued letters patent.

- The powers of intervention of the Inspector General of Financial Institutions were strengthened to improve oversight of insurers. In addition, insurers were required to form an audit committee. The government now had the regulatory power to set standards regarding the required surplus of assets over liabilities.

The 1990 quinquennial report

In 1990, a number of amendments were made to the *Act respecting insurance* to strike a better balance between the insurance industry's development needs, consumer protection and promotion of the interests of insureds. These amendments were made explicit in the *Quinquennial Report on the Application of the Act Respecting Insurance*, released in June 1990.

More specifically, adjustments were made to the *Act respecting insurance*, building upon the liberalization of investment powers granted to insurers in 1984. Measures were defined to improve oversight of insurers. Other adjustments were designed specifically for consumer protection.

The main changes to the *Act respecting insurance* following the June 1990 report were as follows:

- The provisions of the legislation restricting the transfer of ownership of Québec-chartered insurers to non-residents were eased.

- Certain investment powers were defined more precisely, in particular by imposing limits on investments in subsidiaries and corporations, depending on their activities.

- The rules regarding the registration of deposits, loans and investments of an insurer were eased.

- The rule forbidding damage insurers from declaring dividends or interest, or distributing annual surplus, if the result of doing so was that their capital failed to satisfy regulatory standards, was applied to insurers of persons.

- Insurers were made subject to rules of ethics and conflicts of interest, in particular the requirement to adopt a code of ethics for their directors and officers and oversee its application.

- The intervention powers of the Inspector General of Financial Institutions were broadened, including the power to intervene by order.

The 1996 legislative amendments

New amendments were made to the *Act respecting insurance* in 1996.

The most important changes were as follows:

- A new rule was introduced for mutual insurance associations requiring that an insurance contract, rather than a qualification unit, had to be purchased from a mutual insurance association in order to be a member of the association.

- Under the *Act respecting insurance*, the investment diversification rules already in place for certain categories of insurers, other than regarding subsidiaries, were made applicable to all insurers. The legislation states that the limits set regarding investments must be taken into account when the investment is made.

- Following the bankruptcy of federally or Québec-chartered insurers, it appeared necessary to further specify the roles of auditor and actuary. In addition, the Inspector General of Financial Institutions was given new powers to carry out his oversight mission under the better conditions.

- Other amendments were made to the *Act respecting insurance* to improve concordance with the *Civil Code of Québec*, or for more technical reasons.

CONSTITUTION OF INSURERS

The first series of amendments to the *Act respecting insurance* suggested in this report concerns provisions regarding the constitution of insurers. More specifically, six changes are proposed, concerning:

- mutual benefit associations;
- ownership rules;
- the links between the *Act respecting insurance* and the applicable provisions of the *Companies Act*;
- restrictions on the membership of the board of directors;
- the possibility of submitting proposals at annual meetings;
- demutualization of a mutual company or mutual management corporation.

Mutual benefit associations

Since the early 1980s, the number of mutual benefit associations carrying on activities in Québec has fallen significantly. In twenty years, the number of mutual benefit associations chartered in Québec has fallen from twenty to seven, while the number of federally chartered or foreign-chartered mutual benefit associations has dropped from 25 to 16.

The operation of mutual benefit associations raises a number of difficulties:

- This type of organization generally offers non-guaranteed insurance policies, which introduces a risk, from the standpoint of the insured, in terms of the cost of the product and in terms of compensation.
- Over the last fifty years, many mutual benefit associations have increased their accumulated surplus, while their membership fell substantially. In some cases, these members cannot be found. This situation has the potential to develop into a type of "tontine", which is not the original purpose.[6]
- The benefits mutual benefit associations offer their members in the event of death or illness are often not very significant. Some of these associations, with fewer than 150 members, pay death benefits averaging between $100 and $600, and benefits of $50 a month in the event of accident or illness. Compared to the benefits paid, the fixed expenses of activities and the various costs to cover, such as the costs of auditors,

[6] A tontine is an association of investors at the expiration of which the assets are distributed among the survivors or the heirs of the deceased persons.

actuaries and oversight authorities, can appear disproportionate when the insurer is of small size.

For these reasons, the following proposal is made:

PROPOSAL 1

- Prohibit the formation of new mutual benefit associations and maintain in effect the provisions applicable to existing mutual benefit associations.

Furthermore, there are organizations in Québec with thousands of members that offer life insurance protection with membership.

- In Québec, the capital required to form an insurance company is $3 million. This amount may appear relatively large for such organizations, and for that reason they may prefer to purchase group insurance renewable annually from a large Canadian insurance company. Accordingly, these organizations become vulnerable to possible refusal and may be encouraged to form mutual benefit associations.

- It should be recalled that the required amount of capital to form an insurance company, which is higher in Québec than in some neighbouring jurisdictions, was set before the requirements applicable to capital depending on risk and financial obligations were defined. In addition, when this amount was set, compensation organizations for insurance had not been created in Canada.

For these reasons, the following proposal is made:

PROPOSAL 2

- Set the minimum capital required to form a new insurance of persons company at $1.5 million provided the company offers limited insurance coverage.

- Stipulate that the minimum capital requirement of $1.5 million may be adjusted by regulation on the basis of analyses justifying such an adjustment.

Rules of ownership

Ownership provisions are defined in the *Act respecting insurance* in sections 43 to 50. Essentially, they can be summarized as follows:

- Nothing prevents a shareholder from holding all the shares of a Québec-chartered insurance company, either directly or through a holding company.

- The allotment or transfer of voting shares the effect of which is to bring to 10% or more the voting rights held by one shareholder and persons related to him or to a multiple of 10%, may only proceed with the authorization of the minister, if such shareholder and the persons related to him do not already control the insurance company.

- However, no authorization is required for exchange-listed insurance companies, unless the effect of the allotment or transfer is to give control to the shareholder and the persons related to him.

These provisions do not appear to pose a particular problem. However, the *Act respecting insurance* does contain a specific measure covering non-residents: non-residents may not acquire voting shares, directly or indirectly, without the minister's authorization if doing so would enable them to hold over 30% of the voting rights.

In practice, various methods can be used to get around this restriction. In addition, it seems that the distinction made in the *Act respecting insurance* between resident and non-resident shareholders is out of place in view of the current free market context.

Accordingly, the following proposal is made:

PROPOSAL 3

- Eliminate the limit of 30% of voting rights that non-resident shareholders can hold.

Links between the Act respecting insurance and the applicable provisions of the Companies Act

Many insurers and the associations representing them have complained of being required to comply with certain provisions of Part I of the *Companies Act*, when the *Act respecting insurance* is silent. These stakeholders consider inappropriate provisions concerning, for instance, notices of extraordinary meeting, notices of meetings, or the procedures that must be followed to buy back shares. They believe it would be preferable to apply the provisions of Part IA of the *Companies Act*, which is more recent and better adapted to the existing context.

Some insurers have gone further and suggested that the provisions of Part IA of the *Companies Act* simply be incorporated into the *Act respecting insurance*, so that the latter effectively covers all the relevant issues concerning the operation of insurance companies.

Accordingly, the following proposal is made:

PROPOSAL 4

- Apply to insurance companies the relevant provisions of Part IA of the *Companies Act* rather than the provisions of Part I.

Requirements relating to the membership of the board of directors

The current provisions of the *Act respecting insurance* stipulate certain restrictions as to the membership of the board of directors of a Québec-chartered insurer.

- Three quarters of the members of the board of directors must be Canadian citizens.

- The majority of members must be residents of Québec.

Some insurers chartered in other jurisdictions and seeking to acquire a Québec-chartered insurer consider these restrictions to be ineffective and useless.

The federal government has proposed, in Bill C-8, that the requirements regarding the membership of the board of directors of federally chartered insurance companies be reduced. Under this proposal, the requirement of Canadian residency would apply to two thirds of the directors, rather than to three quarters.

Market globalization and the internationalization of business, which directly affect the insurance sector, argue in favour of easing the existing restrictions with respect to the requirement concerning Canadian citizenship. The *Act respecting insurance* could accordingly be amended regarding this point. However, the requirements regarding Québec residency are already lower, and it appears preferable to leave them in effect.

Accordingly, the following proposal is made:

PROPOSAL 5

- Eliminate the existing requirement that three quarters of the members of the board of directors must be Canadian citizens.
- Maintain the requirement that most of the members of the board of directors must be residents of Québec.

Possibility of submitting proposals at annual meetings

Currently, the *Act respecting insurance*, as well as other legislation applicable to Québec-chartered financial institutions and the *Companies Act*, fail to stipulate mechanisms allowing a shareholder or member of a mutual insurer, by statute, to submit proposals at annual meetings and disclose their nature beforehand.

In the 1998-1999 Budget Speech, the government undertook to make appropriate corrections to this situation, by amending Québec's legislation applicable to financial institutions and other companies.

Accordingly, the following proposal is made:

PROPOSAL 6

- Allow the possibility, for a member of a mutual insurer or a shareholder, to submit a resolution at a meeting of mutual insurer members or of shareholders.
- Define the terms and conditions under which the member of a mutual insurer or a shareholder can send a copy of his resolution and the relevant documents, prior to the annual meeting.
- Specify the conditions under which the member of the mutual insurer or the shareholder may submit his proposal at the annual meeting.

Demutualization of a mutual insurer or mutual management corporation

The demutualization of mutual insurer has grown in scope in recent years, as former mutual companies seek access to additional capital. Recently, five large Canadian mutual companies transformed themselves into capital stock companies. Four of these were federally chartered, namely Mutual of Canada, now Clarica, Sun Life of Canada, Manulife and Canada Life. The fifth mutual company, Industrial-Alliance, was a Québec-chartered insurer.

The federal *Insurance Companies Act* allows the demutualization of all mutual companies, regardless of size. The terms and conditions and process to follow are stipulated by regulation.

There are currently no provisions of a similar nature in the Québec legislation, which is a source of difficulties.

- Legally, the demutualization of an insurer can only be effected by a private bill. The process is cumbersome and can involve a substantial amount of time, in particular because of legislative timetables.
- The private bill route can be used for a complete demutualization, under which the mutual company is totally transformed into a capital stock company. It can also be used to carry out a partial demutualization, following which the assets of the mutual members in the new capital stock insurer are regrouped in a mutual management corporation. This can result in another series of difficulties.

  The objectives of the mutual members grouped under the mutual management corporation are not necessarily the same as those of the other shareholders of the new capital stock insurer. In a partial demutualization, the mutual members do not benefit individually from the

appreciation of the shares, while they have a personal interest in the security of the insurance policies being guaranteed and the benefits they derive therefrom being enhanced. Partial demutualizations have given rise to litigation by unhappy insureds in many American states.

Accordingly, it is possible that some mutual companies that have partially demutualized may wish to complete the process, and accordingly windup the mutual management corporation. The legal and regulatory framework currently in effect in Québec does not explicitly stipulate a procedure to that end.

For these reasons, the following proposal is made:

PROPOSAL 7

- Allow a mutual insurer to transform itself into a capital stock insurance company.
- Allow an insurer to complete its demutualization, and accordingly windup the mutual management corporation.
- Grant the government regulatory powers, under which it may specify the requirements and terms and conditions regarding demutualization.

THE OBJECTS AND ACTIVITIES OF AN INSURER

The *Act respecting insurance* is currently restrictive regarding the activities an insurer is allowed to carry on. Section 33.1 of the *Act* expressly defines the activities other than insurance that an insurer may carry on. These activities are:

- carry on, in respect of annuity contracts administered by it and in respect of insured sums kept by it for the benefit of others, the activities that a trust company may carry on under the *Act respecting trust companies and savings companies* (chapter S-29.01);
- carry on, in respect of the activities for which it is authorized by another act, the activities that a trust company may carry on under the *Act respecting trust companies and savings companies*;
- provide for the financing of insurance premiums and annuity contributions;
- offer custodial and safekeeping services;

- offer for sale the products of a financial institution;
- engage in leasing operations;
- manage immovables.

Furthermore, section 33.2 of the *Act respecting insurance* gives the minister discretionary power to authorize an insurance company to carry on an activity other than those stipulated in section 33.1.

These provisions now appear too restrictive, in view of the changes in the financial sector.

- Insurers face competition from other financial institutions, the banks in particular, that have access to a broader field of activity.
- In Québec, the *Act respecting financial services cooperatives,* passed in June 2000, has broadened the mission of savings and credit unions to all activities of the financial sector.
- Under this legislation, the government can authorize a financial service cooperative to carry on an activity that does not relate to its mission, if it is not prohibited by law and if the government considers the activity useful for the public interest and its members. On the other hand, the government can prohibit a cooperative from carrying on an activity that relates to its mission, but is not expressly authorized by the *Act respecting financial services cooperatives.*
- Another argument in favour of broadening the objects of an insurer and its allowable activities is that the federal government has tabled a bill that will enable insurers to join the Canadian Payments Association. This will enable insurers, if authorized to do so, to accept deposits, offer credit and debit cards, in addition to the other activities members of this association can carry out.
- However, insurance must remain an insurer's principal activity.

Accordingly, the following proposal is made:

PROPOSAL 8

- Expand the objects and specify the field of activities of insurers in a way comparable to the expansion undertaken under the *Act respecting financial services cooperatives.*

- Grant the government the power to authorize certain activities not stipulated in the legislation, or to forbid certain activities not expressly permitted.

- Review the provisions of the *Act respecting insurance* and other relevant statutes, along with the corresponding regulations, to streamline the existing legal framework to allow insurers to carry on activities in the financial sector other than those they currently carry on.

INVESTMENT POWERS

The proposals in this report address three issues:

- The elimination of quantitative ratios.

- The possibility of granting security.

- Cancellation of certain transactions by the Inspector General of Financial Institutions.

Elimination of quantitative ratios

The *Act respecting insurance* includes the following provisions regarding investments:

- The basic rule, stated in section 244, is that an insurer must invest its funds as would "a prudent and reasonable person" in similar circumstances. An insurer must "act with honesty and loyalty in the best interest of its insured".

- Furthermore, section 245 imposes many quantitative limits that, in certain cases, go beyond the "prudent and reasonable person" standard.

Since the introduction of these quantitative investment standards, the nature of insurance products has changed considerably. The data shown in the first chapter of this report illustrate how consumer behaviour has changed, along with the activities of insurers and financial institutions as a whole.

- Consumers of financial products are more concerned for their retirement. Accordingly, they prefer insurance products that include not only coverage against risk, but also a savings component, for which they want a return. Accordingly, investment managers must no longer limit themselves to finding safe investments. They also have to obtain the best return possible.

- In the insurance sector, as was seen earlier, there has been substantial growth in segregated funds. To be competitive, insurers must be able to invest in products that may be considered more risky, such as derivatives. While derivatives can be a component of a highly speculative investment strategy, they can also be used as a hedge against certain risks, for instance exchange risks, risks relating to market conditions, and risks resulting from changes in interest rates.

- Not only do insurers compete against each other, but they also compete against the large banks and other financial institutions, especially for products relating to retirement. Because of this competition, the profit margins of insurance companies have contracted in recent years, and insurers must rely to a greater extent on the return on their investments to improve their financial results, consolidate their competitive position and continue to develop.

In neighbouring jurisdictions, significant steps have been taken to ease the quantitative investment ratios imposed on insurers.

- Many American states, such as New York, are in the process of eliminating most quantitative ratios imposed on insurers. Capital requirements already take into consideration the risk represented by certain types of investment. Beginning in 2002, derivatives will be the only category of investment for which New York State will continue to impose quantitative limits. These limits will depend on the nature of the derivative and the total assets of the insurer concerned.

- Some states, such as Illinois, are more permissive regarding investments an insurer can make. However, in these jurisdictions, the insurer must continue to satisfy certain quantitative ratios, whose limits are very low and vary with the nature of the investment.

- In the United States and Western Europe, the trend is to allow financial institutions more flexibility regarding investments, and to eliminate quantitative ratios. In return, the boards of directors of insurers must bear greater responsibility: they must adopt specific policies that observe guidelines set by the oversight authority. In these jurisdictions, the oversight authority has the necessary power to order changes to policies set by boards of directors, should that prove necessary.

Accordingly, it seems desirable to amend the current provisions of the *Act respecting insurance* regarding quantitative ratios applicable to investments.

Accordingly, the following proposal is made:

PROPOSAL 9

- Eliminate the quantitative limits on investments an insurer may acquire, with some exceptions, such as the percentage limit on voting shares an insurer can invest in a legal person other than those allowed as subsidiaries.

- Grant the government the regulatory power to restrict, if need be, the investment options of insurers.

Possibility of granting security

Section 62 of the *Act respecting insurance* stipulates that an insurer may not grant security on its property, except security on landed property or for a short-term loan to meet its liquidity needs. Currently, therefore, an insurer can grant security on its property only under very specific and restricted conditions.

As a result of this provision, an insurer is prevented from acquiring certain forms of investments that can only be made with certain types of security. Many financial markets now require that the investor be able to give investments as security.

Accordingly, the following proposal is made:

PROPOSAL 10

- Replace the restrictions relating to security with more flexible administrative terms and conditions, placing more responsibility on the board of directors. These terms and conditions would be released as guidelines of the Inspector General of Financial Institutions or by government regulation.

Cancellation of certain transactions by the Inspector General of Financial Institutions

Section 245 of the *Act respecting insurance* makes "null of absolute nullity" any investment made contrary to sub-paragraph d of the first paragraph of this section, relating to investments in controlled legal persons.

Many insurers and associations representing insurers maintained that this provision was exaggerated.

Accordingly, the following proposal is made:

PROPOSAL 11

- Repeal the provision of the *Act respecting insurance* to the effect that investments in certain legal persons that are contrary to sub-paragraph d of the first paragraph of section 245 are null of absolute nullity.

- Give the Inspector General of Financial Institutions the power, by order, to require an insurer to dispose of, within the time he considers appropriate, any loan or investment made in violation of the *Act respecting insurance*.

REGULATORY AND OVERSIGHT POWERS

This report contains proposed amendments to the *Act respecting insurance* on four points regarding regulatory and oversight powers. These points are as follows:

- Formulation of guidelines by the Inspector General of Financial Institutions, the strengthening of his powers of order and the expansion of the government's regulatory powers.

- Increase the responsibilities of insurers for the marketing of their products, segregated funds and variable contracts.

- Sanctions pursuant to non-compliance with applicable legislation.

- Dispute settlement.

Formulation of guidelines by the Inspector General of Financial Institutions, the strengthening of his powers of order and the expansion of the government's regulatory powers

The decompartmentalization of the financial sector, market globalization and new information and communications technology have placed insurers in a new context marked by increasingly intense competition. Many of the proposed amendments to the *Act respecting insurance* formulated above are designed to allow insurers more freedom of action, in order to deal with the competition under fair conditions.

To balance this easing of certain legislative and regulatory constraints, an adapted framework must be set in place, under which the oversight agency will be in a position to react quickly and adequately to guarantee the protection of insureds and the solvency of insurers.

In many jurisdictions throughout the world, the preferred method of intervention by oversight agencies is to issue guidelines regarding sound commercial and financial practices. This approach maintains an adequate level of consumer protection, while allowing insurers more leeway. Greater flexibility for insurers implies that they and their boards of directors assume more responsibility.

In Québec, the Inspector General of Financial Institutions has published, in recent years, guidelines on capital adequacy requirements, sound risk management, sound management and measurement of earthquake exposure, and minimum capital test. In them, he specifies the responsibilities of directors regarding sound practices and their fields of application. The capacity of the Inspector General of Financial Institutions to issue such guidelines should be clearly confirmed. Also, the option should be added for the government to use regulatory power to define the framework of the sector in order to guarantee the protection of insureds and the solvency of insurers. A guideline of the Inspector General of Financial Institutions constitutes in itself a non-regulatory directive in which the Inspector indicates how he will exercise the discretionary power attributed to him.

Accordingly, the following proposal is made:

PROPOSAL 12

- Confirm the capacity of the Inspector General of Financial Institutions to issue guidelines for insurers, and for portfolio management corporations, as in the *Act respecting financial services cooperatives*.
- Review the powers of order of the Inspector General of Financial Institutions in relation to those granted to him in the *Act respecting financial services cooperatives*.
- Grant the government regulatory powers over a wider range of objects, in order to guarantee an adequate level of protection of insureds and the solvency of insurers.

Increase the responsibilities of insurers for the marketing of their products, segregated funds and variable contracts

In recent years, insurers have marketed new products and adopted new commercial practices in response to the increasing competition they face.

- Among the new products offered to consumers, products including life insurance protection together with accumulation of savings for retirement have grown rapidly. Accordingly, insurers have developed their segregated funds, i.e. funds that compete directly with mutual funds of other financial institutions.
- New segregated funds have been marketed by insurers that, in some cases, guarantee repayment of all the investor's capital or even stipulate a return on invested capital.
- Insurers have also marketed adjustable-premium universal insurance policies.
- It should also be noted that the insurance sector is beginning to be concerned by the growth of e-commerce and new methods of direct distribution of insurance products.

The development of these new products and new commercial practices raises a number of difficulties, which can be summarized as follows.

- To satisfy the financial obligations of segregated funds, insurers may use their general funds, although Québec's legislative provisions concerning segregated funds have not changed since the early 1980s to reflect this, particularly as far as capital is concerned.

- Class action suits concerning adjustable-premium universal insurance policies and certain insurance contracts have been launched by insureds unhappy with the restrictive interpretation adopted by insurers.

- The development of e-commerce also raises serious challenges regarding consumer protection and fair competition.

To protect consumers in a rapidly changing sector, associations representing insurers prefer self-discipline of their members. The associations formulate guidelines that insurers are encouraged to follow on a voluntary basis. These guidelines concern, for instance, the communication of data or charts regarding premiums or future values, the features of contracts, or disclosure and standardization of the terms used in insurance policies.

Some jurisdictions are aiming to set up a single oversight agency for financial markets to ensure standardized regulation of financial products, whether insurance products, securities or products offered by other financial institutions. Associations representing insurers do not believe that insurance products should be regulated in the same way as securities.

Without specifically defining how to regulate the new commercial practices in the insurance sector, this report provides an opportunity to point out what is needed in this regard. In making amendments to the *Act respecting insurance*, it seems necessary to make a specific effort to adapt the legislative and regulatory framework regarding the commercial practices of insurers.

Accordingly, the following proposal is made:

PROPOSAL 13

- Give the Inspector General of Financial Institutions the power to adopt guidelines regarding commercial practices relating to the marketing of insurance products.
- Grant the government regulatory powers to adopt provisions in this regard if need be.
- Update the provisions of the *Act respecting insurance* and its regulation concerning segregated funds and variable insurance contracts.

Sanctions pursuant to non-compliance with applicable legislation

The *Act respecting insurance* does not stipulate sanctions in proportion to the seriousness of the infraction. The Inspector General of Financial Institutions can only withdraw or suspend the insurer's license, while other Québec legislation stipulates that the oversight agency may impose an administrative penalty consisting of a fine.

The federal bill C-8 proposes introducing such penalties that, in some cases, can consist of fines of as much as $500 000.

It appears appropriate to broaden the range of sanctions the Inspector General of Financial Institutions may impose for non-compliance with the provisions of the law.

Accordingly, the following proposal is made:

PROPOSAL 14

- Stipulate that the Inspector General of Financial Institutions may impose fines in cases of non-compliance with certain provisions of the *Act respecting insurance* and its regulation.
- Grant the insurer the right to be heard before the sanction is imposed and to appeal any decision handed down in this regard by the Inspector General of Financial Institutions to the Court of Québec.

Dispute settlement

Québec's legislation, like the legislation of a number of neighbouring jurisdictions, provides for many dispute settlement mechanisms.

- In Québec, many public laws provide for alternative methods of dispute settlement, such as mediation and arbitration.

- Some insurers have adopted specific dispute settlement methods.

- Many American states are in the process of creating new dispute settlement methods because existing processes are failing to produce the expected results or are generating an excessive backlog of cases waiting before the courts.

- Ontario and other provinces are studying the possibility of setting up a dispute settlement system.

The federal government has taken many initiatives regarding dispute settlement.

- Bill C-8 requires that a federally chartered insurance company set up a claims examination procedure in Canada, and designate an officer or other agent to implement it.

- The same bill stipulates that if, in a province, no rule of law subjects a federally chartered insurance company to the authority of an organization responsible for dispute settlement, such company will be required to become a member of an organization it does not control and that has been set up for this purpose. The insurance company must not control the organization. The organization will examine claims when persons are dissatisfied with the conclusions of the examination procedure set out by the insurance company.

Accordingly, it is probable that in the absence of a dispute settlement agency in a province, the federal government will prompt the federally chartered insurance company to join the federal dispute settlement agency.

Accordingly, the following proposal is made:

PROPOSAL 15

- Require insurers to set up a mechanism to process complaints and to inform the Inspector General of Financial Institutions of each one's dispute settlement method.
- Make the Inspector General of Financial Institutions responsible for the processing of complaints against insurers, except as regards the activities of insurers governed by the *Act respecting the distribution of financial products and services.*
- Authorize the Inspector General of Financial Institutions to sign formal agreements on this matter with associations representing insurers or with other relevant organizations.
- Grant the Inspector General of Financial Institutions the capacity to issue guidelines concerning how complaints are to be processed if the mechanisms implemented by insurers fail to produce the expected results.
- Grant the government, in sectorial statutes, the powers required to harmonize, if need be, the various dispute settlement mechanisms put in place in the financial services sector or to set up such a mechanism.

PORTFOLIO MANAGEMENT CORPORATIONS

As was noted earlier, sections 43 to 50 of the *Act respecting insurance* include specific provisions regarding the ownership of insurance companies. Nothing in the *Act* prevents a shareholder from holding all the shares of a Québec-chartered insurance company, either directly or through a holding company.

However, the *Act respecting insurance* does not stipulate any specific rule to allow an insurance company to restructure itself through a portfolio management corporation, or to govern a portfolio management corporation acting as an upstream management company.

This situation does not correspond to international regulatory standards that seek to protect the consumer while allowing insurers to be competitive.

- According to international bodies, transparency must be the primary concern in the regulation of the corporate structure.

- To that end, the International Association of Insurance Supervisors strongly encourages oversight authorities to take a comprehensive view in controlling financial groups. Qualitative supervision is preferred and will be developed further in the coming years. Supervision of financial groups must take into consideration such basic elements as the group's capitalization, capital adequacy in relation to risk exposure, and the links between enterprises.

- These controls imply that the oversight authority have access to information not only at the level of the insurance enterprise, but also from other companies of the group.

As far as Québec is concerned, it appears advisable to grant insurance companies the freedom to choose the most effective structure to become more competitive. However, it would also be relevant to stipulate measures to allow the Inspector General of Financial Institutions to conduct adequate oversight of portfolio management corporations, in particular to obtain information and ensure compliance with standards. It seems appropriate that the government have the power, should it consider it necessary, to enact standards for portfolio management corporations.

Accordingly, the following proposal is made:

PROPOSAL 16

- Clearly set out in the *Act respecting insurance* that an insurance company can restructure itself under a portfolio management corporation.

- Make portfolio management corporations subject to oversight by the Inspector General of Financial Institutions.

- Grant the government regulatory powers to enact, should it consider it necessary, standards for all portfolio management corporations or according to the category of such corporations.

CHAPTER 3

PROPOSED REGULATORY STREAMLINING MEASURES

In 1996, the government set up the Secrétariat à l'allégement réglementaire to make Québec's legislative and regulatory framework more efficient. In the course of the efforts undertaken to that end, the ministère des Finances and the agencies charged with the administration of legislation under the authority of the ministère des Finances, including the Inspector General of Financial Institutions, adopted a three-year regulatory streamlining plan in which they undertake to examine possible streamlining measures as part of the regular review of each statute in the financial sector. In keeping with this undertaking, particular consideration was given, as part of this report, to streamlining the legal and regulatory provisions applicable to the insurance sector.

This exercise produced two series of proposals that seek:

- the elimination of irritants in the *Act respecting insurance*,
- a review of the *Act respecting insurance* regulations.

ELIMINATION OF IRRITANTS

A number of irritants were mentioned many times during the consultations carried out by the ministère des Finances. The following proposals seek to eliminate them.

Guarantee deposits

The *Act respecting insurance* stipulates that insurers are required to deposit securities with the ministère des Finances to guarantee payment of their financial obligations. These securities, which serve as guarantee deposits, generally consist of bonds, whose interest income is returned at maturity to the insurers that provided them.

The provisions on guarantee deposits were introduced in the *Act respecting insurance* well before the capital sufficiency requirement and the formation of compensation organizations for insurance of persons and damage insurance. These provisions now seem ill adapted and ineffective.

- Taken as a whole, the guarantee deposits provided and the deposits made with the ministère des Finances amount to a few million dollars, while insurers' financial commitments total billions of dollars. In practical terms, the guarantee deposits are a very poor guarantee in the event of difficulties.

- At the same time, the constitution and management of guarantee deposits involve significant human resources on the part of the insurers, the Inspector General of Financial Institutions and the ministère des Finances.

Accordingly, the following proposal is made:

PROPOSAL 17

- Eliminate the provisions of the *Act respecting insurance* and its regulations concerning guarantee deposits.

Annual licence

The Inspector General of Financial Institutions issues a licence each year to each of the three hundred insurers operating in Québec. This is an administrative irritant for insurers that, each year, must file the required forms and information. Replacing the annual licence with a permanent one would remove this irritant, as well as freeing up resources at the Inspector General of Financial Institutions.

It should be pointed out that the licence is permanent in the securities sector, for investment dealers as well as their representatives, and that no licence is required in the financial service cooperative field once the creation of the cooperative is authorized.

Accordingly, the following proposal is made:

PROPOSAL 18

- Allow the Inspector General of Financial Institutions the option to issue a permanent licence for insurers.
- Stipulate the conditions of issue, suspension or reinstatement of the licence.

Semi-annual memorandums of investments

The *Act respecting insurance* requires insurers to submit memorandums of investments every six months. A descriptive list of the investments held must be enclosed with the annual financial statements filed with the Inspector General of Financial Institutions, which may, if need be and at any time, request the information required.

These semi-annual memorandums now serve little purpose, since many investments are bought or sold during the year. Financial analyses of insurers by the Inspector General of Financial Institutions are generally based on the annual financial statements, and there is no real need to refer to the memorandums. Elimination of the semi-annual memorandums of investments would remove an irritant frequently raised by insurers and their representative associations.

Accordingly, the following proposal is made:

PROPOSAL 19

- Repeal the provision of the *Act respecting insurance* that requires insurers to file memorandums of investments.

Actuarial and financial inspection of an insurer's affairs

Under the *Act respecting insurance*, the Inspector General of Financial Institutions is required to conduct an actuarial inspection of an insurer at least once every five years. He must also carry out a financial inspection of the insurer once every three years.

These inspections are not really necessary if the insurer is in solid financial shape. However, they require significant resources, both on the part of the Inspector General of Financial Institutions and with the insurer, which must make the information required for the inspection available.

It would be desirable to streamline this provision, and allow the Inspector General of Financial Institutions the latitude to allocate his resources on a priority basis to better monitor insurers on the basis of risks.

Accordingly, the following proposal is made:

PROPOSAL 20

- Repeal the obligation on the Inspector General of Financial Institutions to carry out actuarial and financial inspections of insurers at certain intervals.
- Replace it with the responsibility, for the Inspector General of Financial Institutions, to examine the affairs of an insurer when the Inspector General considers it necessary, or on any other basis he deems appropriate.

Publication of the authorized activities of insurers

Section 19 of the *Act respecting insurance* requires that the Inspector General of Financial Institutions maintain a record of the authorized activities of insurers, which is accessible to the public. This record is published in the *Gazette officielle du Québec*.

Each year, under section 324 of the same *Act*, the Minister of Finance tables, in the National Assembly, the Annual Report of the Inspector General of Financial Institutions, which contains much statistical data included in the summary table of the annual statements of insurers. The summary table is also published in the *Gazette officielle du Québec*.

Publication in the *Gazette officielle* is redundant, both for the record and the summary table, particularly in view of the availability of such information, as soon as it is updated, using new information and communications technology. The information is available on the websites of insurers and of the Inspector General of Financial Institutions.

The following proposal is made:

PROPOSAL 21

- Repeal the provisions requiring that the minister publish, in the *Gazette officielle du Québec*, the authorized activities of insurers and the summary table of the annual statements.

Changes in accounting and legal terminology

Many provisions of the *Act respecting insurance* refer to certain accounting terms and expressions that have changed. For instance, the expression "operating statement" is now preferred to "statement of income".

Certain new legal expressions must be introduced pursuant to the adoption, in 1991, of the *Civil Code of Québec*.

The following proposal is made:

PROPOSAL 22

- Adopt, in the *Act respecting insurance* and its regulations, the new accounting and legal terminology that is currently preferred.

Fiscal year-end of insurers

Many insurers are part of financial conglomerates or have federally chartered subsidiaries for which the fiscal year-end is not December 31. For some insurers, setting the fiscal year-end at December 31, pursuant to section 305, can be a major irritant since they are obliged to submit financial statements at various dates to comply with the various legislation they are subject to.

The following proposal is made:

PROPOSAL 23

- Allow insurers the possibility of agreeing with the Inspector General of Financial Institutions on a date other than December 31 for their fiscal year-end, and adjust the filing of financial statements accordingly.

Duplication of information

Insurers reporting to the same jurisdiction may be required to provide identical information many times to satisfy the requirements of different control agencies. This is a major irritant that insurers have raised in the consultations leading to the preparation of this report.

At the federal level, where a similar problem exists, a joint committee has been formed to harmonize the requirements of organizations. The committee includes representatives of the Bank of Canada, the Office of the Superintendent of Financial Institutions, Canada Deposit Insurance Corporation and the federal Department of Finance.

In Québec, a similar approach was used to put in place a single number for each business a few years ago. The creation of a coordination committee by the ministère des Finances, consisting of organizations responsible for oversight of Québec's financial sector, would improve the efficiency of the sector's regulatory framework.

The following proposal is made:

PROPOSAL 24

- Form a joint committee including representatives of the ministère des Finances, the Inspector General of Financial Institutions, the Commission des valeurs mobilières du Québec and the Bureau des services financiers, to better harmonize the rules under the responsibility of these various organizations and eliminate duplication and inconsistency.

THE *ACT RESPECTING INSURANCE* REGULATIONS

Many of the proposals given above as part of the government's regulatory streamlining policy imply amendments, in some cases major ones, to the regulations passed for the application of the *Act respecting insurance*. This is particularly the case regarding the elimination of provisions regarding guarantee deposits (proposal 17), replacement of the annual licence with a permanent licence (proposal 18) and changes to the accounting and legal terminology (proposal 22).

Other amendments, suggested in the preceding chapter and concerning the *Act respecting insurance*, also have regulatory implications. Examples are the provisions concerning demutualization of a mutual insurer or mutual management corporation (proposal 7), the changes under consideration for the objects and activities of an insurer (proposal 8), the suggestions concerning investment powers (proposal 9), and the proposals concerning regulatory and oversight powers (proposals 12, 13, and 15).

It would be useful to take advantage of the current review to thoroughly re-examine all of the regulations of the *Act respecting insurance*. Such an analysis would ensure that the legislative and regulatory framework is reviewed consistently and systematically.

Accordingly, the following proposal is made:

PROPOSAL 25

- Thoroughly review the *Act respecting insurance* Regulations.

CHAPTER 4

ADJUSTMENTS TO THE *CIVIL CODE OF QUÉBEC*

During the consultations that preceded the preparation of this report, comments and questions arose regarding certain provisions of the *Civil Code of Québec* that apply to insurers. Two issues were raised that should be dealt with here, namely:

- the immunity from seizure of registered retirement savings plans offered by insurance companies;
- the suicide clause.

IMMUNITY FROM SEIZURE OF REGISTERED RETIREMENT SAVINGS PLANS OFFERED BY INSURANCE COMPANIES

The insurance industry wants registered retirement savings plans offered by insurance companies to be recognized, in the *Civil Code of Québec*, as immune from seizure. Such recognition would require amendments to the *Civil Code of Québec*.

It is not certain that a request for change made by insurance companies justifies an amendment to the *Civil Code of Québec*. Such an amendment could disrupt the registered retirement savings plan market, as some of these plans, i.e. those offered by insurance companies, would become immune from seizure, while the rest could be seized.

Accordingly, the following proposal is made:

PROPOSAL 26

- Conduct more detailed analyses on the problems currently experienced and ways to remedy them, in particular as part of the task force formed for this purpose by the ministère de la Justice.

THE SUICIDE CLAUSE

In life insurance contracts, what is known as the "suicide clause" prevents payment of the insurance benefit, allowing only a refund of premiums paid, should the insured commit suicide within two years after the contract becomes effective.

The problem being raised stems from the interpretation of the "suicide clause" in the event of an increase in insurance coverage.

- The insurers maintain that the two-year period applies again, if life insurance coverage has been increased.

- The Supreme Court of Canada has found otherwise, in a recent decision in which it ruled that in the case of an increase in insurance coverage, the starting point of the two-year period during which the suicide clause may apply was the date of issue of the original policy. Since the date of formation of the contract is the initial date, the Court rejected the defence of an insurance company that refused to pay the benefit because the suicide occurred less than two years after the increase in the insured's coverage.

- Since this decision, the insurer is required to have a new contract signed each time the insured's coverage is increased.

The request made by the insurers regarding the suicide clause seems acceptable. Similar clauses exist or are about to be adopted in other jurisdictions in North America. However, this request requires an amendment to the *Civil Code of Québec*.

Accordingly, the following proposal is made:

PROPOSAL 27

- Amend the *Civil Code of Québec* so that the two-year period during which the "suicide clause" of life insurance contracts applies begins as of the formation of the contract, and that the two-year period begins to run once again on the date of the increase in insurance coverage, if any, for such increase.

CHAPTER 5

UNINSURED BENEFIT PLANS

Uninsured benefit plans are plans set up and generally administered by employers for the benefit of their employees. Currently, these plans are not subject to the *Act respecting insurance*.

For many years, insurers have demanded that uninsured benefit plans be made subject to the *Act respecting insurance*.

- In particular, insurers maintain that the liabilities arising from these plans should be calculated by competent experts.

- Insurers also would like the assets on which these plans are based in Québec to be sufficient to satisfy the financial obligations arising from the plan.

The insurers' requests correspond to a genuine problem. Over the years, as a result of employers going bankrupt, the employee beneficiaries of the plan created as part of the business concerned have been left without recourse or protection, in particular for prescription drug insurance plans and long-term disability plans.

However, it is uncertain whether the required legislative and regulatory framework can be defined in the *Act respecting insurance*. For instance, if the intention is to have the funds required to guarantee the plans and protect the employees concerned held in trust, new provisions could not be added to the *Act respecting insurance*, since this measure is not designed to guarantee the solvency of insurers. In this case, special provisions would have to be introduced into the *Supplemental Pension Plans Act*, whose administration is the responsibility of the Régie des rentes du Québec, or specific legislation to that effect would have to be passed.

Accordingly, the following proposal is made:

PROPOSAL 28

- Adopt legislative provisions concerning prescription drug insurance and long-term disability plans to ensure that the financial obligations contracted under such plans are satisfied.

CONCLUSION

This report proposes a relatively large number of changes to the legislative and regulatory structure applicable to insurers. These changes essentially concern the *Act respecting insurance*. This review and update of the existing legal framework also proposes regulatory streamlining measures, adjustments to the *Civil Code of Québec* and better control of uninsured benefit plans.

It should be added that this report has not dealt in detail with a number of purely technical legislative changes, as well as a large number of adjustments resulting from the changes in accounting and legal terminology, whose implementation would also be worthwhile.

The changes proposed in this report have essentially two objectives:

- Streamline the legislative and regulatory framework so that insurers carrying on activities in Québec can effectively compete and grow, in Québec, Canada and internationally. The insurance sector is one of the foundations of Québec's financial sector, and the government must take appropriate initiatives to ensure that enterprises in this sector enjoy the leeway they need to grow.

- Implement these streamlining measures while protecting the public. The legislative and regulatory changes proposed in this report have been formulated to maintain this balance between the development of insurance enterprises and protection of insureds.

Accordingly, the report suggests a broadening of allowable fields of activities, the elimination of certain quantitative investment ratios, greater flexibility regarding ownership rules, while granting greater powers to the oversight authority. In particular, the report recommends that the Inspector General of Financial Institutions be given the leeway to issue guidelines, exercise greater powers of order, and have greater access to information held by insurers.

Above all, the measures proposed in this report are designed to update and add flexibility to the legislative and regulatory framework in which insurers operate, to reflect the profound changes affecting the operation of this field of activity and the financial sector in general. For competitive reasons, it is important to ensure that insurers are able to offer as broad a range of products as their competitors. At the same time, consumers must receive the necessary protection, in a field where customer tastes and the nature of the products offered change very quickly.

This report has been prepared with the conviction that the proposed changes will indeed enable insurers operating in Québec to grow and develop, while strengthening the protection of insureds.

SUMMARY OF PROPOSALS

Below is the complete list of the 28 proposals in this report.

The first sixteen proposals are aimed at the *Act respecting insurance.*

CONSTITUTION OF INSURERS

Mutual benefit associations

PROPOSAL 1

- Prohibit the formation of new mutual benefit associations and maintain in effect the provisions applicable to existing mutual benefit associations.

PROPOSAL 2

- Set the minimum capital required to form a new insurance of persons company at $1.5 million provided the company offers limited insurance coverage.
- Stipulate that the minimum capital requirement of $1.5 million may be adjusted by regulation on the basis of analyses justifying such an adjustment.

Ownership rules

PROPOSAL 3

- Eliminate the limit of 30% of voting rights that non-resident shareholders can hold.

Links between the Act respecting insurance and the applicable provisions of the Companies Act

PROPOSAL 4

- Apply to insurance companies the relevant provisions of Part IA of the *Companies Act* rather than the provisions of Part I.

Requirements relating to the membership of the board of directors

PROPOSAL 5

- Eliminate the existing requirement that three quarters of the members of the board of directors must be Canadian citizens.
- Maintain the requirement that most of the members of the board of directors must be residents of Québec

Possibility of submitting proposals at annual meetings

PROPOSAL 6

- Allow the possibility, for a member of a mutual insurer or a shareholder, to submit a resolution at a meeting of mutual insurer members or of shareholders.
- Define the terms and conditions under which the member of a mutual insurer or a shareholder can send a copy of his resolution and the relevant documents, prior to the annual meeting.
- Specify the conditions under which the member of the mutual insurer or the shareholder may submit his proposal at the annual meeting.

Demutualization of a mutual insurer or mutual management corporation

PROPOSAL 7

- Allow a mutual insurer to transform itself into a capital stock insurance company.
- Allow an insurer to complete its demutualization, and accordingly windup the mutual management corporation.
- Grant the government regulatory powers, under which it may specify the requirements and terms and conditions regarding demutualization.

THE OBJECTS AND ACTIVITIES OF AN INSURER

PROPOSAL 8

- Expand the objects and specify the field of activities of insurers in a way comparable to the expansion undertaken under the *Act respecting financial services cooperatives*.
- Grant the government the power to authorize certain activities not stipulated in the legislation, or to forbid certain activities not expressly permitted.
- Review the provisions of the *Act respecting insurance* and other relevant statutes, along with the corresponding regulations, to streamline the existing legal framework to allow insurers to carry on activities in the financial sector other than those they currently carry on.

INVESTMENT POWERS

Elimination of quantitative ratios

PROPOSAL 9

- Eliminate the quantitative limits on investments an insurer may acquire, with some exceptions, such as the percentage limit on voting shares an insurer can invest in a legal person other than those allowed as subsidiaries.
- Grant the government the regulatory power to restrict, if need be, the investment options of insurers.

Possibility of granting security

PROPOSAL 10

- Replace the restrictions relating to security with more flexible administrative terms and conditions, placing more responsibility on the board of directors. These terms and conditions would be released as guidelines of the Inspector General of Financial Institutions or by government regulation.

Cancellation of certain transactions by the Inspector General of Financial Institutions

PROPOSAL 11

- Repeal the provision of the *Act respecting insurance* to the effect that investments in certain legal persons that are contrary to sub-paragraph d of the first paragraph of section 245 are null of absolute nullity.

- Give the Inspector General of Financial Institutions the power, by order, to require an insurer to dispose of, within the time he considers appropriate, any loan or investment made in violation of the *Act respecting insurance.*

REGULATORY AND OVERSIGHT POWERS

Formulation of guidelines by the Inspector General of Financial Institutions, the strengthening of his powers of order and the expansion of the government's regulatory powers

PROPOSAL 12

- Confirm the capacity of the Inspector General of Financial Institutions to issue guidelines for insurers, and for portfolio management corporations, as in the *Act respecting financial services cooperatives.*

- Review the powers of order of the Inspector General of Financial Institutions in relation to those granted to him in the *Act respecting financial services cooperatives.*

- Grant the government regulatory powers over a wider range of objects, in order to guarantee an adequate level of protection of insureds and the solvency of insurers.

Increase the responsibilities of insurers for the marketing of their products, segregated funds and variable contracts

PROPOSAL 13

- Give the Inspector General of Financial Institutions the power to adopt guidelines regarding commercial practices relating to the marketing of insurance products.
- Grant the government regulatory powers to adopt provisions in this regard if need be.
- Update the provisions of the *Act respecting insurance* and its regulation concerning segregated funds and variable insurance contracts.

Sanctions pursuant to non-compliance with applicable legislation

PROPOSAL 14

- Stipulate that the Inspector General of Financial Institutions may impose fines in cases of non-compliance with certain provisions of the *Act respecting insurance* and its regulation.
- Grant the insurer the right to be heard before the sanction is imposed and to appeal any decision handed down in this regard by the Inspector General of Financial Institutions to the Court of Québec.

Dispute settlement

PROPOSAL 15

- Require insurers to set up a mechanism to process complaints and to inform the Inspector General of Financial Institutions of each one's dispute settlement method.
- Make the Inspector General of Financial Institutions responsible for the processing of complaints against insurers, except as regards the activities of insurers governed by the *Act respecting the distribution of financial products and services.*
- Authorize the Inspector General of Financial Institutions to sign formal agreements on this matter with associations representing insurers or with other relevant organizations.
- Grant the Inspector General of Financial Institutions the capacity to issue guidelines concerning how complaints are to be processed if the mechanisms implemented by insurers fail to produce the expected results.
- Grant the government, in sectorial statutes, the powers required to harmonize, if need be, the various dispute settlement mechanisms put in place in the financial services sector or to set up such a mechanism.

Portfolio management corporations

PROPOSAL 16

- Clearly set out in the *Act respecting insurance* that an insurance company can restructure itself under a portfolio management corporation.
- Make portfolio management corporations subject to oversight by the Inspector General of Financial Institutions.
- Grant the government regulatory powers to enact, should it consider it necessary, standards for all portfolio management corporations or according to the category of such corporations.

Nine proposals have been formulated as part of the government's regulatory streamlining process.

ELIMINATION OF IRRITANTS

Guarantee deposits

PROPOSAL 17

- Eliminate the provisions of the *Act respecting insurance* and its regulations concerning guarantee deposits.

Annual licence

PROPOSAL 18

- Allow the Inspector General of Financial Institutions the option to issue a permanent licence for insurers.
- Stipulate the conditions of issue, suspension or reinstatement of the licence.

Semi-annual memorandums of investments

PROPOSAL 19

- Repeal the provision of the *Act respecting insurance* that requires insurers to file memorandums of investments.

Actuarial and financial inspection of an insurer's affairs

PROPOSAL 20

- Repeal the obligation on the Inspector General of Financial Institutions to carry out actuarial and financial inspections of insurers at certain intervals.
- Replace it with the responsibility, for the Inspector General of Financial Institutions, to examine the affairs of an insurer when the Inspector General considers it necessary, or on any other basis he deems appropriate.

Publication of the authorized activities of insurers

PROPOSAL 21

- Repeal the provisions requiring that the minister publish, in the *Gazette officielle du Québec*, the authorized activities of insurers and the summary table of the annual statements.

Changes in accounting and legal terminology

PROPOSAL 22

- Adopt, in the *Act respecting insurance* and its regulations, the new accounting and legal terminology that is currently preferred.

Fiscal year-end of insurers

PROPOSAL 23

- Allow insurers the possibility of agreeing with the Inspector General of Financial Institutions on a date other than December 31 for their fiscal year-end, and adjust the filing of financial statements accordingly.

Duplication of information

PROPOSAL 24

- Form a joint committee including representatives of the ministère des Finances, the Inspector General of Financial Institutions, the Commission des valeurs mobilières du Québec and the Bureau des services financiers, to better harmonize the rules under the responsibility of these various organizations and eliminate duplication and inconsistency.

THE ACT RESPECTING INSURANCE REGULATIONS

PROPOSAL 25

- Thoroughly review the *Act respecting insurance* Regulations

Two proposals concern the *Civil Code of Québec*.

IMMUNITY FROM SEIZURE OF REGISTERED RETIREMENT SAVINGS PLANS OFFERED BY INSURANCE COMPANIES

PROPOSAL 26

- Conduct more detailed analyses on the problems currently experienced and ways to remedy them, in particular as part of the task force formed for this purpose by the ministère de la Justice.

THE SUICIDE CLAUSE

PROPOSAL 27

- Amend the *Civil Code of Québec* so that the two-year period during which the "suicide clause" of life insurance contracts applies begins as of the formation of the contract, and that the two-year period begins to run once again on the date of the increase in insurance coverage, if any, for such increase.

One proposal concerns uninsured benefit plans, which currently are not subject to the *Act respecting insurance*.

UNINSURED BENEFIT PLANS

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- Adopt legislative provisions concerning prescription drug insurance and long-term disability plans to ensure that the financial obligations contracted under such plans are satisfied.